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July 17, 1998

Magalie Roman Salas, Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, DC 20554

RECEIVED

JUL 17 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: Ex Parte Presentation: CC Docket No. 96-61

Dear Secretary Salas:

On Friday, July 17, 1998, Herbert E. Marks and the undersigned, on behalf of the State of Hawaii, met with Kathryn C. Brown, Chief of the Common Carrier, and Douglas L. Slotten of the Common Carrier Bureau to discuss the importance of rate integration and geographic rate averaging. During the meeting, the attached document was distributed. In accordance with Section 1.1206 of the Commission's Rules, two copies of the State of Hawaii's written presentation are attached to this letter for inclusion in the public record.

Please contact the undersigned if you have any questions.

Sincerely,

Brian McHugh

Brian J. McHugh

Attachment

Copy: Kathryn C. Brown
Douglas L. Slotten

No. of Copies rec'd 021
List ABOVE

JUL 17 1998

**GEOGRAPHIC RATE AVERAGING AND RATE INTEGRATION
ARE ESSENTIAL UNIVERSAL SERVICE SAFEGUARDS FOR CONSUMERS
IN AREAS SUCH AS HAWAII**

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Historical Background. Although Hawaii (the "State") was admitted to statehood in 1959, its residents historically were deprived of certain telecommunications services available to other Americans and were charged more for those that were available. For many years, mainland carriers serving the State – which is separated from the mainland U.S. by over 3000 miles of the Pacific Ocean – classified Hawaii as an international point and established "separate" rate structures for Hawaiian services. As a result, the rates, terms and conditions for services to and from Hawaii were higher than and different from those for comparable services offered on the Mainland. This pervasive pattern of discrimination adversely affected the State's citizens, its economy, those who communicated with the State, and, ultimately, the nation as a whole.

Regulatory Response. Two distinct Commission policies have helped remedy this historical pattern of discrimination. First, *rate integration* requires that a carrier serving remote (or so-called "offshore") locations employ the same rate structure or rate scheme for those locations that it employs for non-remote locations. The policy is rooted in Section 202(a) of the Act, which prohibits any unreasonable discrimination for like services. Second, *geographic rate averaging* requires carriers to offer the same services, at the same rates, for the same distance, regardless of the location of the terminal points. The policy ensures that no user is deprived of telecommunications service at reasonable rates simply because of the high costs associated with serving the user's location.

Section 254(g) of the Telecommunications Act of 1996. In the Telecommunications Act of 1996, Congress codified and expanded the Commission's *rate integration* and *geographic rate averaging* policies in Section 254(g), thereby affirming that these policies are essential elements of the broader national objective of promoting universal service. Congress used expansive language in Section 254(g) to ensure that these policies cover all interexchange carriers and services.

Implementation of Section 254(g). The Commission has repeatedly rejected carriers' attempts to carve out exceptions to the requirements of Section 254(g). Except for a limited and temporary stay in the CMRS context, the Commission has rejected all claims for exemption from, or forbearance of, the *rate integration* requirement. Similarly, in accordance with Section 254(g)'s legislative history – which expressly states that any exception to its *geographic rate averaging* policy should be "limited" -- the Commission has permitted only very limited exceptions to *geographic rate averaging*. In order to protect the integrity of Section 254(g), the Commission should continue to take great care in setting forth the standards for granting any degree of forbearance from the *geographic rate averaging* requirement, or in otherwise describing the requirements of Section 254(g).

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